BOROUGH COUNCIL OF WELLINGBOROUGH **AGENDA ITEM 9**

Resources Committee **11 March 2020**

Report of the Section 151 Officer

Capital and investment strategy for the medium term

1 Purpose of report

The report presents members with the capital strategy for the medium term, together with a list of all agreed capital schemes for the coming years. This now also encompasses the asset investment strategy and newly required non-treasury investment indicators as required.

2 Executive summary

2.1 This report forms part of the council's capital strategy process and provides the committee with the opportunity to review the strategy and governance of the capital programme.

2.2 The capital strategy, shown as appendix 1, has been amended and updated, where possible, and will be further revised as appropriate during 2020/21.

2.3 Includes the council's asset investment strategy for 2020/21.

3 Appendices

Appendix 1: Capital strategy for the medium term (March 2020)
Appendix 2: Capital programme 2020/21 onwards as agreed in February 2020

4 Proposed action: Members are RECOMMENDED to:

4.1 **Agree the capital and investment strategy at appendix 1**

5 Background

5.1 The capital and investment strategy represents an essential element within the council's overall Corporate Planning Framework. It relates directly to the delivery of the council's over-arching vision and aims, in the planning and use of its capital resources in the medium term, to optimise the council's ability to achieve its priorities and objectives. The strategy sets out the council's approach to capital investment over the medium term and provides a framework through which the council's resources, and those matched with key partners, are allocated to help meet strategic priorities

6 Discussion

6.1 The Section 151 Officer is constantly trying to create greater accuracy and certainty in the planning and governance of the capital programme.

6.2 The internal monitoring and reporting of the capital programme continues to improve. However, there is still some further improvement on the accuracy of forecasting that needs to be undertaken in the coming year.

6.3 The capital and investment strategy is agreed annually to make sure it accurately reflects the capital needs of the council and the best use of capital funding to deliver the key objectives.

6.4 This report draws together the capital strategy and governance arrangements that will be in place for the next financial year.

6.5 In order to keep projects moving and prevent delay it has been agreed by this committee that a tolerance level of up to 10% of the total project costs, but not to exceed £20k in total, can be agreed by the Section 151 Officer, in consultation with the Chairman and/or Vice Chairman of Resources Committee, to avoid the need for urgent actions between committee dates. These will be reported to the committee at the next available opportunity.

7 Legal powers

Local Government Act 2003

8 Financial and value for money implications

The proposed funding for the capital programme is based on the assumption that the council will, at any one time, maintain a balance of £5 million in its capital resources available for future years. Therefore it is important to ensure that capital schemes included represent an efficient use of the council's capital resources and that they are focussed on the council's key outcomes.

9 Risk analysis

Nature of risk	**Consequences if realised**	**Likelihood of occurrence**	**Control measures**
Unsustainable level of capital expenditure in the medium to long term.	Revenue implications not affordable; need to resort to borrowing	Possible if not controlled and managed	Robust budget planning and control
Non-delivery of schemes once approved.	Council priorities not achieved	This is an on going risk and to some degree has already occurred.	Improved project management by capital managers

10 Implications for resources

Officers responsible for capital schemes are accountable for identifying resources to manage and control schemes, and any revenue consequences. The new monitoring and reporting needs may impact on the capital manager's time as they will need to be more involved in the management and reporting of the schemes. This will not however be a significant impact and should be easily absorbed as part of their roles.

The larger scale longer term projects identified in the capital strategy may require some further resources for project management to ensure that they deliver on time and to budget. These will be included as part of any business case and will be capitalised wherever appropriate.

11 Implications for equalities and stronger and safer communities

None

12 Author and contact officer

Shaun Darcy, Director, S151 Officer

13 Consultees

Liz Elliott, Managing Director
Adrian Piper, Assistant Director
Julie O'Connell, Finance Manager

14 Background papers

Capital Programme reports February 2020 Resources Committee
Capital Strategy March 2019

APPENDIX 1

THE BOROUGH COUNCIL OF WELLINGBOROUGH - A CAPITAL AND INVESTMENT STRATEGY FOR THE MEDIUM TERM (MARCH 2020)

1. INTRODUCTION

1.1 The updated Prudential Code and Treasury Management Code of Practice (both issued in December 2017) include new requirements in relation to the setting of a Capital Strategy that covers specific subject areas. In line with the Prudential Code, the aim of this Capital Strategy is to demonstrate how the council will make capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The capital strategy sets out the long term context in which capital expenditure and investment decisions are made and establishes that the council gives due consideration to risk, reward, and impact on the achievement of priority outcomes.

1.2 The strategy is concerned with, and sets the framework for, all aspects of the council's capital expenditure – its planning, prioritisation, management and funding. It is closely linked to the council's planned use of its assets and is an integral aspect of the council's medium term service and financial planning process as reflected in the Medium Term Financial Plan (MTFP).

1.3 The key aims of the Capital Strategy are to:

- set out how the council identifies, programmes and prioritises capital requirements and proposals arising from its key outcomes, plans and strategies;
- provide a clear context within which proposals for new capital expenditure are evaluated to ensure that all capital investment is targeted at meeting the council's vision, aims and priorities;
- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area whilst minimising the ongoing revenue implications of any such investment;
- identify the resources available for capital investment over the MTFP planning period; and,
- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, and the achievement of value for money.

2. CAPITAL PROGRAMME NEEDS AND PRIORITIES

2.1 The Capital Strategy is a key planning tool to ensure that the council's resources are aligned with its vision, aims and priorities. It sets out the framework by which any capital scheme will be considered and approved. It establishes the fundamentals for capital schemes to be compared and ensures that resources are focused on the key priorities for the council as a whole.

2.2 Resources must be used to deliver the overall vision of the council, along with its aims and key outcomes. There are identified needs in relation to the council's operational and investment assets but consideration also needs to be given to the wider regeneration and wellbeing priorities.

2.3 The council has various mechanisms in place which seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment to achieve the council's over-arching aims. These include:

- Democratic decision-making processes which provide overall political direction and ensure accountability for the investment in the capital programme.

- Officer groups which bring together a range of service interests and professional expertise. These include:

  - ➢ The Senior Management Team (SMT) which has overall responsibility for the strategic development, management and monitoring of the capital programme;
  - ➢ The Capital Working Group (CWG) provides a corporate overview of all capital investment proposals.
  - ➢ The S106 Working Group which monitors spend and identifies efficient use of the S106 monies for both capital and revenue projects
  - ➢ Voluntary sector working party which approves projects and monitors spend in relation to the approved budget for capital community grants.

- An integrated service and financial planning process, incorporating the corporate performance management framework. Within this framework, all proposals for capital investment are required to demonstrate how they contribute to the achievement of the council's aims and priorities. This includes an evaluation process for investment proposals which ensures cross-cutting appraisal of projects which are aligned to the council's key aims and priorities and deliver on the efficiency and value for money agendas.

- In addition to these, it is important that the members of the council have a channel to present their own capital initiatives. The process for submission of a scheme still needs to be developed but it is anticipated that it will be fundamentally the same, and a full business case and project documentation will be needed. The acceptance of the scheme will be on a cost benefit analysis and will need to consider not only the budget required but also the capacity with in the organisation to deliver it.

- Consideration will need to be given to a separate funding arrangement for these projects and as such a proposal for each year will be included in the capital programme, depending on the total level of uncommitted resources available for the coming financial year. This will be agreed as part of the annual capital budget setting process and in line with current decision making processes.

2.4 Following the successful approval of the structural changes order (SCO) which has confirmed the abolition of BCW and the other 7 councils currently serving the county and the creation of 2 new unitary councils to serve north and west Northamptonshire from April 2021. With this in mind, BCW will be considering all capital schemes in the context of north Northamptonshire and the overall fit within this context going forward.

3. RESOURCING STRATEGY

3.1 The regular source of capital funding over the medium term available to the council for investment in the authority is represented by right to buy and VAT shelter income. The council also has a number of assets it no longer uses and that are held for sale. These assets, once sold, produce capital receipts for the council. This is not a sustainable or regular form of funding and the council has to plan its use to maximise the resources over the medium tem.

3.2 The strategy is intended to consider all potential funding options open to the council and to maximise the financial resources available for investment in service provision and improvement within the framework of the MTFP.

3.3 The main sources of capital funding received and the strategic consideration of the council are summarised below:

Central Government

3.4 Grants are allocated in relation to specific programmes or projects and the council would seek to maximise in the current economic climate such allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives and agendas but address priority needs in the authority.

3.5 The majority of planned capital expenditure currently funded by this means is to support housing in the form of Disabled Facilities Grants (DFG).

3.6 The DFG grant now forms part of the government’s Better Care Fund and is “passported” to the districts and borough from the county council. An agreement is currently in place for the county council to passport the entire grant directly to the district councils, as this is where the statutory responsibility still lies. The grant may not be sufficient to complete every request made and so it has to be prioritised carefully. Where funding allows it is supplemented by the council.

Third party funding

3.7 Capital grants – these represent project-specific funding for capital projects, in addition to grant from central government, which is more usually received from quasi-government sources or other national organisations. In developing capital proposals the council will always seek to maximise such external contributions, subject to any related grant conditions being consistent with the council's policy aims and targeted outcomes. Frequently such funding, which enhances the council's investment will also be linked to match funding arrangements.

3.8 The authority will continue to bid for future resource allocations using innovative service delivery mechanisms if necessary.

Private contributions

3.9 Developer contributions – these represent contributions from developers towards the provision of public assets or facilities. Sometimes these are to mitigate the impact of their development on communities and often referred to as Section 106 contributions. These contributions are usually earmarked for specific purposes in planning agreements and can often be used for either revenue or capital work which relates to the specific purpose.

3.10 Working with partners / matched funding – the council is committed to working with partners in the development of the authority and its services. Various mechanisms provide opportunities to enhance the council's investment potential with support and contributions from other third party and local strategic partners. These may range from commissioning / facilitating others to develop services in the authority; funding for regeneration projects; and - through match funding - joint funding of developments.

Locally generated funding

3.11 Prudential "unsupported" borrowing – under the Prudential Code the council has discretion to undertake borrowing to fund capital projects with the full cost of that borrowing being funded from within council resources. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing does provide an option for funding capital development but one which has to be funded each year from within the revenue budget or from generating additional ongoing income streams. Under the existing medium term financial plan, the authority is currently not considering prudential borrowing.

3.12 Capital receipts from asset disposal – the council has a reasonably large property estate for its size. This estate is managed through the Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed of.

3.13 Capital receipts from asset disposal represent a finite funding source and it is important that disposals are planned and structured to support the priorities of the council. The capital receipts from such strategic sales are a valuable source of capital financing, but equally a proportion of these proceeds need to be invested for either revenue return or for investment in other assets that over time will increase in value and form part of future years' capital financing.

3.14 In order to achieve this 25% of all strategic asset sale capital receipts will be transferred into a capital investment reserve, to be ear-marked for reinvestment, either for investment to produce future sources of financing or to create a revenue income stream. The remaining cash receipts from the disposal of surplus assets may be used to fund new capital investment as and when received.

3.15 Capital receipts have been a significant source of finance in previous financial years. Forecasts of receipts to be received for future years have been revised to reflect the reducing balances of the Right To Buy and VAT Shelter income and the potential for the sale of land and buildings.

3.16 The flexible use of capital receipts outlined as part of the financial settlement from central government will be utilised where possible. Capital receipts received since 2016-17 onwards will be initially considered for use on transformational projects that contribute towards the council's efficiency strategy and action plan. This includes Local Government Reorganisation which is inevitably going to require substantial contributions from all of the councils across Northamptonshire so it would be prudent to allow for this within any unallocated balances going forward as capital receipts are received.

3.17 Although we could also apply revenue balances towards capital expenditure, due to the already low levels of revenue reserves, this is a not a strategy that will be utilised.

3.18 The council will allocate capital resources in accordance with its key outcomes, aims and priorities.

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4. PRIORITISATION OF RESOURCES

4.1 The capital programme is already divided into desired outcomes and themes to show how the resources are being used.

4.2 These are shown below:

Desired Outcomes	Themes
Essential for service delivery	Asset maintenance for Health & Safety (H&S) / Compliance - operational
	Asset maintenance for H&S / Compliance - investment

	Maintenance for H&S / Compliance
	New assets for operational use
To generate further revenue resources	Invest to generate income return
	Wellbeing and grants (to avoid revenue costs)
To achieve policy objectives	Invest to save
	Compulsory Purchase Order (CPO) / Property regeneration
	Community / S106
	Public Realm

4.3 These outcomes and themes will also be used to present new capital projects and proposals for the coming year and help to prioritise the use of the capital funds alongside the council's agreed annual business plan for 2020/21.

4.4 Currently proposals in progress or being developed include:

Essential for delivery:

- Refurbishment of the multi-storey car park to enhance the town's standard of car parking and reduce the amount of revenue costs associated with its maintenance.
- Planned preventative maintenance schedule for all operational and investment properties to reduce the call on revenue budgets for repairs and maintenance of our current portfolio.
- Major investment in bridges, fences and footpaths, and associated parkland areas, owned by the borough council to ensure compliance and health and safety risk mitigation.
- Development of current low use properties to become highly efficient operational assets (eg. the Tithe Barn) and the rationalisation of those assets left redundant as a consequence (eg. 20 Sheep Street).

Generate further revenue resources:

- Investment to develop non-operational assets into residential properties, as agreed for Croyland Hall and Abbey. Additional properties can be considered if the return on investment is sufficient and a full business case is presented.
- Development of the council owned land at the Embankment area to enhance the current investment property and rental incomes from this area.
- Development of Tithe Barn Road offices as investment property and a key asset for North Northamptonshire in the future.
- Continuation of the Property Acquisitions in support of reducing and controlling the costs of Temporary Accommodation.

Achieve policy objectives:

- Investment in information and communications technology to enable efficient and effective service delivery and enhanced customer experience, reflecting current modern practices and customer demands.

- Development of the Redwell Leisure Centre outdoor pitches and courts to generate a revenue return and to enhance wellbeing.
- Investment in the development of The Castle theatre to enhance the services offered and to reduce the revenue costs of supporting the current service delivery model.
- Further development of our own land holdings to add to our investment portfolio.
- Regeneration and development of the Town Centre for housing, leisure use and potentially as investment property.
- Development of Public Realm within the Town Centre and links to other area of the Borough.

5. MANAGEMENT OF THE CAPITAL PROGRAMME

5.1 The council reviews its capital requirements and determines its capital programme as part of the annual financial planning and budget setting process. Resource constraints mean that the council continually needs to prioritise expenditure and consider alternative solutions. To ensure that available resources are allocated optimally, capital programme planning will be determined in parallel with the service and revenue budget planning process within the corporate planning framework.

5.2 The evaluation and scoring of capital schemes enables the council to achieve the most from its capital resources. The process ensures that priority is given to those schemes that are essential in order to meet the statutory obligations of the council, or that are contractually committed following a decision of the council. Priority will also be given to those proposed schemes that are considered to best support the council's mission statement and key objectives

5.3 Both internal and external customers are invited to submit proposals for new capital schemes. In addition to this, schemes that are currently in the waiting pool will be reviewed, to establish if there have been any changes or amendments that need to be considered. All schemes will be initially self-scored by the scheme manager or proposer and then assessed and prioritised by the Capital Working Group using the agreed assessment criteria as set out below:

a) Contribution to delivering the key objectives is an initial gateway into the capital programme. Schemes that do not contribute to any objectives do not progress further.

b) Corporate risk - scored on a sliding scale 0 to 10 depending on the impact on the council's corporate risk register. If there is a high impact on mitigating risk or reducing the dangers and liabilities for the council, then a high score is allocated; if the impact is low, then a low score is allocated.

c) Compliance to statute – scored on a sliding scale of 0 to 10 depending on the level of impact, with a score of 10 meaning there is a high level risk to the council of non-compliance if the scheme were not to go ahead (such as health

& safety or other statutory requirement). A score of 0 would mean there is no risk or statutory requirement at all.

d) External funding – scored on a sliding scale of 0 to 10 depending on the percentage of external funding to the project as a whole. Schemes with higher values of external funding will receive a higher score. This is because the level of resources contributed by BCW is reduced, and the delivery and implementation risks of the project is either shared with the partner or reduced as a result.

e) Revenue consequences - schemes which result in a positive impact on the revenue budget resulting in larger cost savings will score higher than those schemes which result in either lower or no savings. Those that have a revenue cost will score 0.

5.4 Once the schemes have been scored, they are sorted into the following three schedules for consideration by the Resources Committee:

- Schedule 1 – a list of recommended schemes for inclusion into the capital programme that have scored highly against the above criteria.

- Schedule 2 – a list of schemes which, whilst desirable, are not of such high priority, but do reflect the policy decisions of the Council and - where funding allows - should be considered for inclusion.

- Schedule 3 – a list which will show those schemes that did not score sufficiently high enough to be considered for funding at this time.

5.5 The full list of project submission forms are made available on the intranet so that both officers and members can view the proposed schemes.

5.6 A draft capital programme will be included with the draft budget papers sent to the December Resources Committee each year. This gives all members a chance to review and scrutinise the proposed schemes prior to the final capital programme being submitted in February each year.

5.7 Once agreed at Resources Committee in February each year the programme is recommended for approval at council.

5.8 Regular monitoring reports on the agreed programme are then submitted to Resources Committee to identify changes to schemes and reflect:

- New resource allocations
- Re-profiling of programme delivery
- Schemes reduced or removed
- Virements between schemes to maximise delivery.

5.9 A short rationale for the changes will be included with the reports to give members a summary position of the scheme and its progress. The scheme is managed by the capital manager who can, on request, provide detailed project management information to the committee.

6 Asset Investment Strategy (non-treasury) 2020 – 23

Introduction

6.1 The purpose of this strategy is to support the objective of the council's approved capital programme to invest a proportion of the capital receipts received from the disposal of surplus property in to property assets that will secure a long term return.

6.2 Many local authorities are increasing their investment in property as part of wider strategies to be more commercial, increase revenue income and move closer to self sufficiency.

6.3 Interest rates remain low across other sectors of the investment market. This has resulted in greater competition for good quality investment property. Therefore, a strategy and process is required to allow the council to act promptly to acquire suitable assets if they become available.

Scope

6.4 The strategy will cover the following categories of property:

- Commercial property – investment in assets from the market to increase revenue income.
- Housing – investment in the market for private rent, including for temporary accommodation.
- Development property – investment in property for development (commercial, residential or operational use).

Key aims and objectives

6.5 The aims of this strategy are to establish criteria for the Council to consider when creating a balanced property portfolio for the purposes of investment income and to support the council's wider corporate objectives.

6.6 The key objectives are to:

- Acquire and hold properties that provide long term investment in accordance with the council's corporate and financial objectives.
- Maximise return whilst minimising risk through effective management strategies.
- Prioritise properties that yield optimal rental growth and stable income.
- Protect capital invested in acquired properties.

- Develop a governance framework that enables the council to move at a pace in line with the market.
- Build a balanced property investment portfolio.
- Identify opportunities to acquire and/or develop properties that could further the council's economic development and regeneration benefits, whilst providing a commercially acceptable return.

Investment Guidelines

6.7 Investment decisions should be made in a consistent and structured manner. The following principles will be followed in making those decisions:

- Return on investment that compares favourably against other forms of investment and respective risk.
- Freehold investments with good title to be purchased. Leaseholds only when under a long lease at a peppercorn or ground rent.
- Due diligence undertaken to assess all known implications for the council.
- Diversity of the portfolio, to ensure a spread of risk, should inform the selection of suitable opportunities.
- Regular review and monitoring of the portfolio to ensure it remains viable.
- Decisions to include an assessment of the ethical nature of an investment.
- Development opportunities will only be considered subject to a satisfactory outline business case.
- Preference is given to opportunities within the borough of Wellingborough, but consideration will also be given to opportunities within the immediate surrounding area and in partnership with other local authorities as a means of sharing wider economic benefits, spreading risk and sharing expertise.

6.8 For each property investment opportunity each will be assessed against a complete set of criteria and the decision recorded for future reference. The matrix of criteria will include:

- Location.
- Covenant.
- Lot size.
- Lease length.
- Tenure.
- Repairing obligations.
- Net yield.

6.9 Further work may be undertaken, as required, to inform the decision whether (or not) to purchase. These could include:

- Valuation.
- Structural condition.
- Ground conditions.

- Surrounding land use.
- Flood risk.
- Planning approvals and history relating to the property and surrounding property.
- Other analysis relevant to a specific property.

Added value

6.10 The council will maximise the ‘added value’ advantage of its position as a local authority by:

- Being an excellent landlord.
- Providing financial assurance.
- Building credibility as an excellent organisation to do business with.
- Being a key local stakeholder.
- Growing our business – maintaining / providing a supply chain of appropriate commercial units.

Governance

6.11 An investment panel will be formed including the leader and deputy leader of the council, leader of the opposition, managing director, director of place and strategic growth, director of resources and assistant director (corporate landlord). Acquisitions and disposals can be made under officer delegated powers. However, decisions to make significant acquisitions or disposals should normally be referred by the investment panel to the Resources Committee, time permitting, recognising that speed may be of the essence in securing a suitable investment property.

Managing the property investment portfolio

6.12 This strategy recognises that as the portfolio grows and changes, the skills and capacity of the property and projects team and of the council’s estate management contractor, may need to change to ensure that the management requirements are satisfied.

6.13 It will be necessary to have the resources available to bring in specialist property investment advice and other specialist advice when required.

7 Financial Overview and Indicators

This section has been included to cover the requirements of the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Investment guidance, including investment indicators.

7.1 Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This appendix will focus on the third category as treasury management is covered within its own strategy and does not lend to or buy shares in other companies or organisations.

7.2 Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

7.3 Service Investments: Loans

Contribution: This could be where the Council lends money to its subsidiaries, local businesses and/or residents to support local public services and stimulate local economic growth. The Council has no such investments.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans.

7.4 Commercial Investments: Property

MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

Contribution: The Council invests in local commercial and residential property with the intention of making a profit that will be spent on local public services.

The most significant property investments to date have been the land at Redhill Grange which was sold at Market Value at the end of 2018/19 and the Swansgate Shopping Centre providing a key central function for the town. The Council also owns various Industrial Units aimed to boost local economic regeneration for the Town.

Table 1: Property held for investment purposes

Property	Purchase Cost £'000	Actual 31/03/19 Gains or (Losses) £'000	Actual 31/03/19 Valuation £'000
Phoenix Court	Unknown	325	1,250
Saxon Court	Unknown	500	1,900
Faraday Court	Unknown	380	1,760
Land off Windermere Drive	Unknown	205	1,055
Bradfield Road Units	Unknown	1,200	3,440
Enterprise Court	Unknown	650	2,250
Booth Drive Warehouse	Unknown	1,745	4,495
Sanders Road Industrial	Unknown	750	2,110
Trojan Centre	Unknown	500	1,650
Links Road	Unknown	365	1,465
Swansgate Shopping Centre	Unknown	300	7,700
Other sites below £1m	Unknown	5,174	20,888
Total	**Unknown**	**12,094**	**49,963**

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year end accounts preparation and audit process value the portfolio of properties below the previous valuation, then an updated strategy will be presented to the Resources Committee detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments by identifying the key risks associated with these type of investments:

Acquisition Risks:

The current low yields from traditional investments, such as bonds, mean that there is strong competition in the property market for investment opportunities. It follows that it is highly likely that there will be several bidders for any good-quality asset. One factor that is increasingly emerging is competition amongst local authorities looking to invest on a nationwide basis. This increased competition means it is inevitable that some bidders will be unsuccessful and it also raises the possibility of local authorities distorting the investment market, driving up prices fuelled by the availability of low-cost borrowing.

Due to the nature of the property market, decisions may need to be taken quickly in order to put offers forward. Of course, offers can be subject to conditions and due diligence before exchange of contracts.

Cost Risks:

Abortive costs, including legal costs, survey fees, professional adviser's fees, and officer time, may be incurred in connection with initial feasibility investigations and unsuccessful bids. It is also possible that issues will be identified during due diligence that will prevent a transaction from progressing.

Property Market Risks:

Property has a different risk profile from other investments because of its physical characteristics, which need to be managed and maintained. Whilst most property sectors have historically demonstrated good long-term returns, particularly in relation to underlying capital growth, fluctuations in the market or local economy and tenant/property-specific issues can affect short-term returns. The property market is not a certain market and the Council may not always achieve its target returns.

Many investment transactions happen without being offered for sale in the market. These are known as off-market transactions. Information is key and getting to know about properties for sale is important and as it becomes known that a purchaser is active in the investment market, many such opportunities are presented by agents seeking a finder's fee, usually a maximum of 1% of the purchase price. Alternatively, the investor can be proactive by contacting property owners and agents directly. Consideration can also be given to engaging a specialist investment agent to act on the investor's behalf.

Lack of suitable sites/buildings – the local property market is restricted and is dominated by secondary or tertiary assets that may not be of the quality the council would acquire. There may therefore be a shortage of suitable stock in the conurbation.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The investments made to date are either historic properties held by the Council for a number of years or are new investments with a view to retain for the foreseeable future. Although liquidity is important, no investments made to date affect the ongoing liquidity of the Council.

7.5 Capacity, Skills and Culture

Elected members and statutory officers: The council proposes to operate an Asset Investment Panel which consists of elected members and statutory officers. Their role will be to look at potential investments as well as manage the current portfolio. The Panel will make recommendations to Committee and Council for any future investments.

Commercial deals: Specialist staff are employed by the council to ensure the knowledge and skills are held in house when dealing with significant commercial deals. The council also consults with specialist firms for further independent advice. At all-times officers from the council ensure that all commercial deals follow the principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: This has been covered in the preceding section 6 - Asset Investment Strategy.

7.6 Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 2: Total investment exposure

Total Investment Exposure	Actual 31/03/19 £'000	Forecast 31/03/20 £'000
Treasury Management Investments	33,373	23,580
Service Investments: Loans	0	0
Commercial Investments: Property	49,963	49,963
Total Investments	**83,336**	**73,543**
Commitments to Lend	0	0
Guarantees Issued on Loans	0	0
Total Exposure	**83,336**	**73,543**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority has funded any acquisitions through its own reserves or historical ownership, no borrowing has been undertaken by the council to fund any of this activity to date. The commercial income generated compared to the council's overall budget equates to circa 10%.

Capital Programme Funding Position

Appendix 2

Current Capital Reserves:

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Capital Reserves Funding Balance B/f	**28,673**	**20,333**	**7,949**	**10,431**	**10,431**
Current Capital Programme (reported to March committee)	9,092	766	25		
2018-19 Outturn underspend reprofiled	1,008				
2019-20 DFG Determination	584				
Approved Resources 19 June 2019	1,464				
Approved Resources 25 September 2019	-1504	3,060			
Approved Resources 30 October 2019	-113	143			
Approved Resources 17 December 2019	-3,366	5,382			
Approved Resources 05 February 2020	-145	2,801			
Adjustments as contained within this report at 6.4	-1,468	1,468			
Capital Programme as per Agresso	**5,552**	**13,621**	**25**	**-**	**-**
Crematorium infrastructure - approved in principal Resources 13 June 2018	387				
Approved schemes awaiting available resources	200				
Capital Investment Reserve - Asset strategy	3,000				
Flexible use of capital receipts - contribution to LGR	500	1,650			
Capital Programme	**9,639**	**15,271**	**25**	**-**	**-**
2019-20 Expenditure funded from capital resources					
External Funding					
Capital S106	*102*	*214*			
Disabled Facilities Grant	*470*	*547*			
Heritage Lottery funding	*477*	*476*			
	1,049	**1,237**	**-**	**-**	**-**
Current Capital Programme funded by capital reserves	**8,590**	**14,034**	**25**	**-**	**-**
RTB , VAT Shelter & Asset Sales	*250*	*250*	*250*		
Other Anticipated Capital Receipts to include:					
Proposed Assets for Disposal (Sheep Street, Land at Doddington Road, Land at Doddington Road, Croyland Road, Booth Drive, Site of Drill Hall and 8a High Street & Residential development site)		*1,400*	*2,257*		
Anticipated New Capital Receipts	**250**	**1,650**	**2,507**	**-**	**-**
Forecast Capital Reserves Funding Balance C/f	**20,333**	**7,949**	**10,431**	**10,431**	**10,431**

NB - Italics Estimate

Forecast Capital Reserves if anticipated income not received	20,083	7,449	9,681	9,681	9,681
Minimum Capital Reserve	5,000	5,000	5,000	5,000	5,000
Available resources for capital programme	15,083	2,449	4,681	4,681	4,681